

A change of direction? The latest Fed and ECB minutes



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- ▶ The latest minutes by the ECB and the Fed revealed that both central banks shifted to a more hawkish direction in June, but in different ways. The Fed kept rates unchanged but removed its easing bias, while the ECB moved from a pause in April to delivering a 25 bp rate hike in June.
- ▶ Inflation risks became the dominant policy concern. For the Fed, inflation was seen as broader and more persistent, linked to energy, tariffs and AI-related demand; for the ECB, there were more signs that the energy shock could increasingly pass through to goods, services, and core inflation.
- ▶ The growth and labour markets assessment improved in the US and remained solid in the Eurozone: the Fed saw solid activity and stronger payroll momentum, while the ECB judged euro area growth as weak but not recessionary, cushioned by consumption, public investment, defence spending and AI-related investment.
- ▶ The key investment message from the Fed minutes: “Hold, but no longer leaning toward cuts”. The ECB has shown it is willing to act with a “measured hike, but no pre-commitment”. Both central banks preserved optionality and avoided pre-committing to a rate path.
- ▶ Bear in mind that the situation has significantly changed since the meetings in early June, after oil prices fell sharply following the 17 June US and Iran Memorandum of Understanding. In our baseline macro scenario, with oil prices remaining below USD 80 per barrel and the Strait of Hormuz staying open, inflationary pressures should ease meaningfully in the second half of the year, allowing both the Fed and the ECB to keep rates on hold through year-end. The main risks to this outlook are renewed tensions in the Middle East pushing energy prices higher again, or AI-related investment spending adding further inflationary pressure.

What the Fed’s June meeting minutes stated

At the 16–17 June meeting, the FOMC unanimously kept the federal funds rate target range unchanged at 3.50%–3.75% and reaffirmed its policy of maintaining ample reserves. The Committee described economic activity as expanding at a solid pace despite elevated uncertainty, partly linked to the Middle East conflict. It also pointed to strong productivity growth, robust capital investment, job gains broadly in line with workforce growth, and a stable unemployment rate. The inflation assessment was more uncomfortable. Inflation remained above the 2% objective, with price pressures linked to energy and other supply shocks, tariffs, and strong AI-related demand. Participants judged inflation risks to remain tilted

to the upside. The labour-market discussion was more constructive than in April. Unemployment stood at 4.3%, payroll gains had strengthened, and earlier concerns about labour-market deterioration had eased. Growth was seen as resilient, supported by consumer spending, business investment and especially the AI buildout. On policy, the Committee removed language suggesting an easing bias. A few participants saw a case for raising rates, but all supported holding steady. The reaction function became more two-sided: rates could be maintained or lowered if inflation eased, but policy firming would likely be warranted if inflation stayed elevated.

What changed versus the April minutes

Compared with April, the June minutes are shorter, more direct, and more hawkish in tone. The policy rate was unchanged in both meetings, but the balance of risks

and the communication around future policy shifted meaningfully. We put the main changes in a table to have a quick overview:

Topic	April minutes	June minutes	Change
Policy rate	Held at 3.50%–3.75%; one member preferred a cut (likely Miran).	Held at 3.50%–3.75%; unanimous vote.	Less dovish
Inflation	Elevated, mainly energy driven.	Higher, broader, and more persistent.	More worrisome
Disinflation path	Close to 2% by end-2027.	Around 2% only during 2028.	Delayed
Labor market	Stable, but job gains low.	Stable, with stronger payroll momentum.	Less downside concern
Policy language	Easing bias still partly present.	Easing bias removed.	Communication shift
Rate outlook	Cuts possible if disinflation resumed or labour weakened.	Cuts less likely, but stable rates more likely, yet also higher key rates if inflation persists.	More two-sided outlook

What the June ECB accounts stated

At the 10–11 June meeting, the Governing Council raised the ECB interest rates by 25 basis points. The decision was framed as a measured adjustment, not the start of a pre-announced hiking cycle. The main argument was that the persistent energy shock had pushed inflation above target and was spreading into broader price dynamics. Inflation rose to 3.2% in May, from 3.0% in April, while core inflation increased to 2.5%, from 2.2%. Energy remained the main driver, but the accounts highlighted broader indirect effects, with higher costs affecting refined products, fertilisers, plastics, transportation and imports. Services inflation also rose to 3.5%. Staff projections were revised

up: headline inflation was expected at 3.0% in 2026 and 2.3% in 2027, while core inflation was projected to remain above 2%. The growth assessment was cautious, but not recessionary. Euro area GDP contracted by 0.2% in the first quarter due to Irish multinational activity; excluding Ireland, GDP grew by 0.3%. The war was weighing on confidence, real incomes and services, but consumption, public investment, defence spending and AI-related investment were expected to cushion the shock. The labour market remained resilient, wage growth was easing, and the ECB saw no clear wage-driven second-round effects.

What changed in June versus the April ECB accounts

Compared with April, the June accounts show a clear shift from “wait for more information” to “act now, but remain flexible”. In April, the Governing Council kept rates unchanged because second-round effects were not yet visible and the June projections would provide more

evidence. By June, in the eyes of the ECB committee, the data had confirmed that the shock was more persistent and that indirect effects were broadening. We put the main changes in a table to have a quick overview:

Topic	April minutes	June accounts	Change
Policy decision	Rates kept unchanged; decision seen as close by some members.	ECB key rates raised by 25 basis points; all members supported the hike.	Hawkish action
Inflation	Energy shock pushed headline inflation higher; upside risks intensified.	Headline inflation at 3.2%; indirect effects increasingly visible and broad-based.	Inflation problem broadened
Core / underlying inflation	Underlying inflation had changed little.	Core inflation rose to 2.5%; projected above 2% through 2028.	More persistent concern
Growth	Outlook weakened; downside risks intensified.	Growth revised down but recession risks relatively low; activity cushioned by consumption, public investment and AI.	Weak but resilient
Labour market / wages	Labour market resilient but cooling; no wage second-round effects.	Unemployment low at 6.3%; negotiated wages easing, but wage risks monitored closely.	Still contained
Policy stance	Wait for June projections; option value of waiting still present.	Option value of waiting diminished; no longer a case for looking through the shock.	From patience to action
Rates outlook	Wait and see approach, keeping all options on the table	Shift towards more hawkish assessment and outlook but no pre-commitment	Shift to action, no rate hike cycle, data-dependent

Bottom line – what did we learn from the Fed minutes and the ECB accounts?

The June Fed minutes should be read as a “hold, but no longer leaning toward cuts” message. The Fed has not begun signalling a new tightening cycle, but it has clearly moved away from an easing bias toward a stable-rate stance, preserving the option to hike if inflation does not decline in the coming months. For investors, this lowers the likelihood of near-term rate cuts, increases the probability of a rate hike, supporting higher front-end yields, and raises the importance of incoming inflation data for the next policy signal.

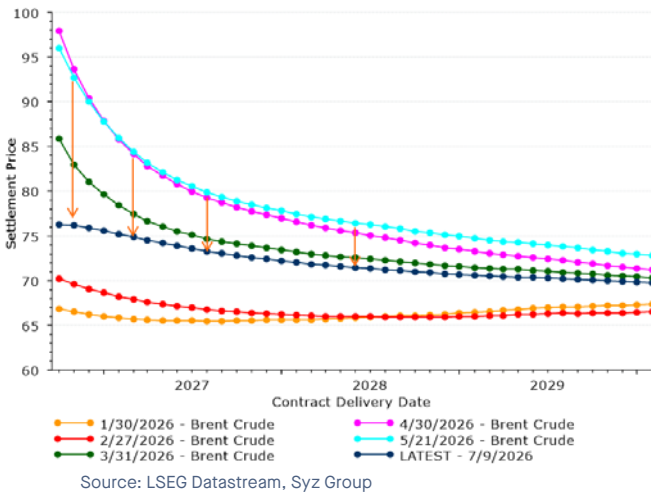
The June ECB accounts, by contrast, should be read as a “measured hike, but no pre-commitment” message. The Governing Council judged that the Middle East-related

energy shock had become persistent enough, and the inflation pass-through broad enough, to require an immediate 25 basis point rate increase. At the same time, the ECB deliberately preserved optionality. Its next steps will depend on incoming data, the persistence of the energy shock, indirect effects, wage behaviour, inflation expectations and financial conditions. For investors, the June accounts reduce the probability that the ECB can simply look through the shock. They support a higher-for-longer policy-rate path in the euro area, while also highlighting that the ECB remains sensitive to downside growth risks and to the possibility of abrupt financial-market repricing.

What has happened since the meetings – the latest developments

It is important to note what has happened since the two meetings – the ECB meeting on 10–11 June and the Fed meeting on 16–17 June. Energy prices have declined much more than expected following the 17 June US-Iran Memorandum of Understanding. This matters particularly for the ECB, whose June staff projections were based on energy price assumptions with a cut-off date of 21 May. They therefore did not incorporate the subsequent sharp fall in oil prices.

The markets oil price curve – plotting oil prices from current and future contracts – did shift massively lower since the ECB’s cut of date for their economic projections (21 May)

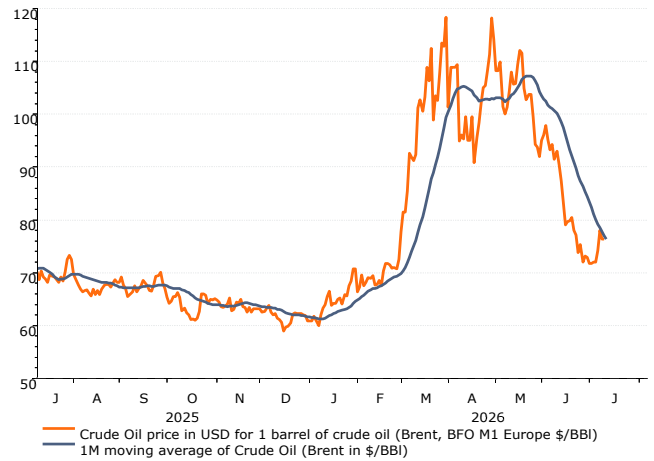


Even the ECB’s milder energy-price scenario assumed that oil prices would remain clearly above USD 80 per barrel until the fourth quarter. By early July, however, the current monthly average oil price had already fallen below USD 80 per barrel. In our baseline scenario, which assumes a sustainable reopening of the Strait of Hormuz

and oil prices below USD 80 per barrel over the coming months, headline inflation should trend down more significantly later in the year. Over time, this should also reduce pressure on core inflation. Under this base case, we still expect both the Fed and the ECB to keep their key policy rates unchanged at least until the final meeting of the year.

The main risk to this outlook is currently tilted to the upside. Renewed tensions in the Middle East have pushed energy prices somewhat higher again, raising the risk that inflation declines less than expected and that at some point will need to tighten further if inflation pressures re-accelerate. We are monitoring the situation closely and will adjust our inflation and interest-rate outlook in line with energy prices and incoming macroeconomic data.

The latest move in oil prices was not in the direction of our baseline macro scenario, but still stayed below 80 USD per barrel oil



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